

Message Text

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C O N F I D E N T I A L TEGUCIGALPA 0185

E.O. 11652: GDS

TAGS: EINV, EMIN, HO

SUBJECT: ROSARIO RESOURCES CORPORATION (RRC) NEGOTIATIONS

REF: TEGUCIGALPA 0008

1. ECOM OFFICER HAD EXTENDED DISCUSSION WITH DAVID FAGIN, EXECUTIVE VICE PRESIDENT OF RRC, JANUARY 12. TECHNICAL GROUP ESTABLISHED BY GOH TO ANALYZE EFFECT OF NEW TAX ON RRC HAD DONE NO HOMEWORK PRIOR TO MEETING WITH RRC IN A.M.. SESSION THEREFORE PRIMARILY DEVOTED TO COMPANY EXPLANATION OF APPLICATION NEW TAX LAW TO COMPANY CASH FLOW. COMPANY PRESENTED UPDATED VERSION ITS CASH FLOW UNDER SEVERAL ALTERNATIVE APPLICATIONS OF NEW LAW. ALL ALTERNATIVES RESULT IN NEGATIVE RATE OF RETURN EVEN WITH REDUCED CAPTIAL EXPENDITURES.

2. MR. FAGIN HEADS NEGOTIATING GROUP COMPOSED OF HOMER ANDERSON, VICE PRESIDENT; ROBERT BAILEY, TAX MANAGER; AND R.E. BOUCHE, GENERAL MANAGER OF THE MOCHITO MINE. PRIMARY TECHNICAL PERSON ON HONDURAN SIDE IS LICENCIADA MARIA ISZBELLA MARTEL OF THE HONDURAN MINISTRY OF HICIENDA.

3. ECOM OFFICER PRESENTED DISCUSSION MINISTERIAL LEVEL PERSONALITIES AND PAST EXPERIENCE WITH BANANA, WOOD AND AGRARIAN REFORM ACTIONS OF GOH. NEGOTIATION POSTURE OF RRC PRESENTED BY FAGIN INDICATES FLEXIBILITY AND COULD EVENTUALLY INCLUDE PROVISION OF EQUITY SHARES TO GOH. ECOM OFFICER RECOM-
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MENDED AGAINST EQUITY SHARES OFFER UNTIL SUCH TIME THAT ITS

PRESENTATION WOULD CLEARLY SERVE COMPANY INTERESTS. THERE IS NO PRESENT INDICATION THAT THE OBJECTIVE OF THE TAX LAW IS TO NATIONALIZE RRC. RATHER, TAX MEASURE SEEMS BASED PRIMARILY IN REVENUE OBJECTIVES OF GOH, IN WHICH CASE EQUITY OFFER NOT FUNCTIONAL TO ANSWERING PROBLEM

4. MR. FAGIN BELIEVES LICENCIADA MARTEL, WHO DRAFTED TAX LAW, WAS DIRECTED TO OBTAIN 70 PERCENT OF RRC RETURN FROM HONDURAN OPERATION. LOGIC BEHIND 70 PERCENT NUMBER IS THAT GOH HAS A RIGHT TO 50 PERCENT OF ANY MINING PRODUCTION PLUS 40 PERCENT INCOME TAX ON REMAINDER. TARGET FIGURE OF 70 PERCENT OBTAINED BY GOH INDIRECT TAX FORMULA APPLIED TO 1974 COMPANY RESULTS. 1974 WAS EXCEPTIONALLY GOOD YEAR DUE TO LAG OF COSTS BEHIND PRICE INCREASES. SAME FORMULA APPLIED TO 1975 RESULTS PRODUCE LOSS OF SOMEWHAT LESS THAN ONE MILLION DOLLARS FOR RRC.

5. RRC HAS SET APPOINTMENTS WITH SEVERAL MINISTERS AND PRESIDENT OF CENTRAL BANK IN ORDER TO EXPLAIN COMPANY POSITION UNDER NEW LAW. COMPANY LAWYER BELIEVES THAT REVISION OF LAW IS POSSIBLE (EMBASSY LESS OPTIMISTIC). DISCUSSIONS TO DATE HAVE BEEN FACTUAL EXPOSITIONS WITHOUT ANY INDICATIONS OF HOSTILITY ON PART OF GOH TOWARD RRC. HOWEVER, COMPANY CLEARLY CONSIDERS THAT APPLICATION OF PRESENT LAW TO ITS OPERATION IS CONFISCATORY AND EXPROPRIATORY. COMPANY WILL SEEK IN MEETINGS JANUARY 13 TO CLARIFY GOH INTENT AND WILLINGNESS TO RESPOND COMPANY POSITION.
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